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1995 BUDGET

Potential Reductions to the Operation and Maintenance Programs



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National Security and
International Affairs Division

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September 6, 1994

The Honorable Daniel K. Inouye
Chairman, Subcommittee on Defense
Committee on Appropriations
United States Senate

The Honorable John Glenn
Chairman, Subcommittee on Military Readiness
and Defense Infrastructure
Committee on Armed Services
United States Senate

The Honorable John P. Murtha
Chairman, Subcommittee on Defense
Committee on Appropriations
House of Representatives

The Honorable Earl Hutto
Chairman, Subcommittee on Readiness
Committee on Armed Services
House of Representatives

The Honorable John R. Kasich
Ranking Minority Member
Committee on the Budget
House of Representatives

This report evaluates the military services' operation and maintenance (O&M) requests for fiscal year 1995. Our objective was to determine whether the O&M accounts should be funded in the amounts requested. We reviewed selected O&M accounts for U.S. Army, Europe (USAREUR); U.S. Forces Command (FORSCOM); U.S. Air Forces, Europe; Air Combat Command; Air Materiel Command; and the Atlantic and Pacific Fleets. We also reviewed selected accounts at the headquarters, Army, Navy, Air Force, and Defense activities.

As shown in table 1, we identified potential reductions of about \$4.5 billion to the services' and Defense activities' fiscal year 1995 O&M budget requests.

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Table 1: Potential Reductions to the Fiscal Year 1995 O&M Budget Requests by Program Category

Dollars in millions					
Category	Army	Navy	Air Force	Defense	Total
Inventory	\$140.9	\$67.0	\$305.7		\$513.6
Maintenance		64.6	398.0	\$5.1	467.7
Commissaries				403.5	403.5
Flying hours	48.2		10.5		58.7
Ground operating tempo	538.0				538.0
Burden sharing	156.0				156.0
Residual value	118.2		4.1		122.3
Equipment maintenance for allies	9.5				9.5
Real property maintenance	49.0				49.0
Civilian personnel	387.0	17.0	123.0	54.0	581.0
Morale, welfare, and recreation	2.8	0.8	1.5	191.7	196.8
Unobligated balances	255.0	114.0	155.0		524.0
Reserve Officers' Training Corps	1.5	0.1	3.2		4.8
Pilot training			149.0		149.0
Budget withhold	228.9				228.9
Stock funding depot level reparable	201.0				201.0
Surplus ships		4.9			4.9
Overstated request for appropriations	129.0				129.0
Travel funds	143.0				143.0
Second destination transportation			10.2		10.2
Equipment (deferrals, cancellations, etc.)		5.3			5.3
Military-to-military program				36.3	36.3
Total	\$2,408.0	\$273.7	\$1,160.2	\$690.6	\$4,532.5
Special events ^a				\$14.0	\$14.0

^aThe amount shown for this issue is a restriction on the use of unobligated funds. It is not a proposed budget reduction and is not included in the totals.

In April and May 1994, we provided your staff with the preliminary results of our work. This report summarizes and updates that information. The following sections briefly discuss each of the potential reductions.

Better Management of Spare and Repair Parts Inventories Could Result in Significant Savings

The Army's, Navy's, and Air Force's O&M budget requests for spare and repair parts could be reduced \$513.6 million if the services improved the management of these inventories. The Army's request could be reduced \$140.9 million for the following reasons:

- Retail supply activities had inventories that could be reduced \$108 million because they maintain items that have no or few demands. These items represent an unnecessary inventory investment and as these items are issued or returned to the wholesale supply system, they should not be repurchased using O&M funds.
- The wholesale level was not canceling procurement commitments¹ for items no longer needed because of reduced requirements for the items. At one buying command, we estimated that \$21.5 million of unneeded procurements could have been avoided if the requirements system's recommended commitment cutbacks had been acted upon.
- Because of reduced stock levels for prepositioned materiel in Europe, the budget request to acquire spare parts was overstated \$11.4 million.

The Navy's O&M budget request could be reduced about \$67 million because materiel ordered for ship overhauls was not used and was not returned to the supply system for use on other overhauls. The unused items represent an unnecessary cost to shipyard customers that paid for these items with O&M funds. Returning the unneeded items to the supply system would result in reduced costs to the O&M customers.

The Air Force's request could be reduced \$305.7 million for the following reasons.

- Invalid backorders for inventory no longer needed, valued at about \$70.7 million, at 17 retail activities were canceled after we brought the matter to the attention of responsible officials. The canceled backorders allow the units to use the funds for other purposes and therefore reduces the need for future years' funds.

An Air Force official said that the Air Force cannot determine in advance what backorders may become invalid due to reduced requirements after the order was placed. Therefore, the Air Force could not reduce the amount of orders it places. The official views the matter as a "cost of doing business."

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¹The procurement phase before a contract is awarded.

- Because of reduced spare parts requirements at the unit level, the Air Force wholesale supply system is able to terminate an average of \$200 million of unneeded procurements annually. The procurements were to satisfy the requirements of the units that use O&M funds to buy the items from the wholesale level. The magnitude of the procurement terminations is an indication that more O&M funds are being appropriated for spare parts than may be needed.
- Retail supply activities are maintaining inventories that are not needed or that could be more economically provided by the wholesale supply activity at the base level. We found over \$70 million of such items. If the retail activities turned the items in to the wholesale level and received a 50-percent credit, they would increase their O&M buying power about \$35 million. This could then be used to reduce the amount of O&M funds being requested.

Improved Maintenance Practices Could Result in More Efficient Operations

The services' fiscal year 1995 O&M requests for maintenance funds can be reduced \$467.7 million if the services adopt improved maintenance practices that would make their operations more efficient.

- Navy O&M customers pay labor costs for work performed in the shipyards based on estimated rather than actual costs. A review of the labor rates charged for work performed on six ships showed that the estimated labor costs averaged 11 percent higher than the actual costs. This resulted in the O&M customers paying about \$40 million more in labor charges than was actually incurred.

A Navy official said that the fact that the labor actually incurred was less than the estimated amount should result in lower labor rates in future years. Our review, however, did not show that future years' labor rates were adjusted to reflect that fewer labor hours were used than were charged to O&M customers.

- The Navy has requested \$24.6 million for advance planning of nonrefueling overhauls of three nuclear powered ballistic missile submarines. The overhauls are based on a 12-year operating cycle. Recently, the Navy increased the operating cycle to 14 years. In addition, the Navy is evaluating the need for nonrefueling overhaul of these submarines. In view of the ongoing study and the increase in the operating cycle, the need for advance planning funds for fiscal year 1995 is questionable.

- The Air Force's depot workload carryover from one fiscal year to the next keeps increasing (from about \$800 million in fiscal year 1987 to about \$1.7 billion at the end of fiscal year 1993).² While some carryover is necessary to ensure a continuous and efficient flow of work from one year to the next, the amount of carryover at the end of fiscal year 1993 was about \$398 million more than was needed. Congress has repeatedly expressed concerns about providing funds for maintenance work that cannot be completed in the fiscal year for which the funds are appropriated.
- A 1993 Department of Defense (DOD) Inspector General report pointed out that maintenance costs for computer tomography scanners were excessive because restrictive contract maintenance specifications resulted in the award of sole-source contracts. The report also noted that cost-benefit analyses had not been performed to determine if the maintenance should be performed in-house or by contract. The Inspector General estimated that corrective actions to address these issues would result in DOD health program O&M savings of \$5.1 million in fiscal year 1995.

Appropriated Fund Support to Commissaries Can Be Reduced Significantly

The Defense Commissary Agency identified various management initiatives to improve the operating efficiencies of military commissaries and exchanges. The proposed initiatives and actions, plus others that we identified, could result in reduced appropriated fund support totaling about \$403.5 million in fiscal year 1995. The following are the major initiatives and actions and resultant savings.

- Reducing and streamlining organizational structure, contracting out certain operations, and reducing or eliminating general and administrative costs would save about \$100.9 million a year.
- Closing 20 commissaries that have annual sales of \$15 million or less and are within 20 miles of another commissary would save about \$11 million annually.
- Combining operations of commissaries and exchanges at 72 locations would reduce staff redundancy and save about \$243.6 million annually of appropriated fund support.
- Using cash surpluses generated by the commissary surcharges to pay commissary costs now paid by appropriated funds would reduce the need for appropriated fund support by about \$48 million a year.

Unless timely actions are taken, it may not be possible to achieve the full extent of the above savings in fiscal year 1995. Service officials said that

²Workload carryover is defined as depot maintenance work that has been paid for by the Air Force O&M customers, but has not been completed.

the issue of reducing appropriated fund support for commissaries and exchanges was a very emotional and political issue and that they had no additional comments to offer.

Army Flying Hours Exceed Requirements

The flying hour programs for fiscal year 1995 at FORSCOM and USAREUR are overstated by \$38 million and \$10.2 million, respectively. FORSCOM's budget execution plans showed that the command transferred \$28 million out of the flying hour program to perform maintenance on aircraft that are being rotated among FORSCOM units and \$10 million to the counternarcotic program. At USAREUR, based on the command's experience in executing its flying hour program over the past 5 years and the number of aircraft in theater, we estimate that the command's flying hour requirements are \$7 million less than the amount included in the budget request. In addition, the command included about \$3.2 million in its flying hour requirements to prepare aircraft for transfer to other units—the same type situation that occurred at FORSCOM.

USAREUR officials did not agree with our findings concerning potential reductions to their flying hour program. They said that using historical experience as a basis for projecting funding needs is unfair to the command because of funding decisions that the Army and the command may have made concerning the execution of prior years' requirements. The officials also said that reducing the flying hour requirements does not give consideration to operational mission requirements and the costs associated with preparing the aircraft for transfer to other units. These type costs are not budgeted for.

In our opinion, the fact that USAREUR has not been able to execute its flying hour program in previous years is a good indication that the amount of funds included in the budget may be excessive to need. We agree that the budget does not include funding for operational missions. Furthermore, it should not. If funds are used to perform mission-related requirements, the command can request additional funding during its mid-year review and the Army can, if necessary, request a supplemental appropriation. With regard to the costs associated with preparing aircraft for transfer, these costs are not normally paid out of the flying hour program, which is to maintain pilot proficiency and equipment readiness.

An Army official said that the costs associated with preparing aircraft for transfer to other units probably should not have been shown in the flying hour requirements and that the costs should have been shown separately.

Air Force Flying Hours for C-17 Aircraft May Not Be Achieved

The Air Mobility Command estimates the C-17 aircraft flying hour program for fiscal year 1995 at 130 hours a month for each operational aircraft, for a total of about 19,000 hours at a cost of about \$76.3 million. Of the total hours and costs, 6,005 hours costing \$20.6 million relate to pilot training funded with o&m funds and 12,991 hours costing \$55.7 million relate to hours reimbursed by customers for cargo hauling. We reported in 1992³ that the C-17's planned flying hour program of 90 hours per month for each aircraft was optimistic. Based on continuing problems with the aircraft, plus the fact that the aircraft are being upgraded at the depots, the current plan to fly 130 hours a month may not be realistic.

The C-17 is currently averaging about 51 hours a month per aircraft. Assuming a 25-percent increase in its flying hours in fiscal year 1995, the aircraft will still only fly an average of about 64 hours a month—a total of 9,216 flying hours—rather than the 130 hours a month shown in the budget. If the ratio of pilot training hours to cargo hauling hours remains the same, about 32 percent, then 2,949 o&m-funded flying hours would be needed for pilot training. Therefore, 3,056 flying hours, costing about \$10.5 million, could be reduced from the Air Force's fiscal year 1995 o&m request.

Funds Requested for Ground Operating Tempo Are Not Used for Training Purposes

In prior years, Congress fully funded the Army's request for ground operating tempo (OPTEMPO) requirements on the basis that the funds were needed in order to attain and maintain a ready Army. For example, the Army requested \$2.436 billion for ground OPTEMPO in fiscal year 1994 and Congress appropriated \$2.560 billion. However, the Army plans to spend only about \$2.136 billion for OPTEMPO in fiscal year 1994. The remaining \$424 million has been transferred to other o&m activities.

The amount appropriated in fiscal year 1994 was more than the Army requested and was more than sufficient to enable the Army to achieve its prescribed readiness levels based on a 800-mile training rate. For fiscal year 1995, the Army requested \$2.428 billion for ground OPTEMPO—\$292 million more than it plans to spend in fiscal year 1994.

If the Army trains at the same level in fiscal year 1995 that it plans to train in fiscal year 1994 (620 miles), the amount of OPTEMPO funding the Army would need in fiscal year 1995 would be about \$1.89 billion—\$538 million less than the amount included in the fiscal year 1995 budget request. An

³1993 Air Force Budget: Potential Reduction for C-17 Initial Spares (GAO/NSIAD-92-293, Sept. 18, 1992).

Army official said that regardless of the actions taken by the commands to adjust their proposed OPTEMPO spending level in fiscal year 1995, the Army's position is that it will train at the 800-mile level.

Army's Budget Request Does Not Reflect Burden Sharing Contributions From Germany

According to Army officials, the fiscal year 1994 budget assumed German burden sharing, but the Army does not expect to receive any burden sharing funds from Germany. As a result, there is a \$127 million shortfall in the fiscal year 1994 budget. In an effort to forestall this problem in the future, the Army requested funds in its fiscal year 1995 budget to compensate for "faulty assumptions" about receiving burden sharing from Germany. We estimate that the amount of funds included in the fiscal year 1995 budget request to compensate for the anticipated shortfall that would occur if Germany does not provide burden sharing funds is about \$156 million.⁴

The lack of a budget offset for anticipated burden sharing contributions from Germany could be construed to mean the United States does not expect Germany to contribute to the cost of maintaining U.S. forces overseas. Congress may want to avoid this perception by reducing the Army's O&M request by \$156 million. If the burden sharing funds are not received by the time of the mid-year budget review, the affected commands could request additional funds from the Army to compensate for the anticipated shortfall.

Army and Air Force officials said that based on past experiences, Germany will not pay for burden sharing in fiscal year 1995 and that if the services' budgets are reduced, the services will have to make up the shortfall by reducing other programs. They said that because the decision as to what the host countries pay is the responsibility of the Department of State's Ambassador for Burden Sharing, it would be more appropriate to reduce their budget as an incentive to encourage a more aggressive pursuit of the burden sharing issue with Germany.

⁴The anticipated shortfall in fiscal year 1994 adjusted for the dollar Deutsche Mark exchange rate.

Residual Value Payments Are Not Fully Reflected in the Budget Requests

The Army's fiscal year 1995 O&M budget request could be reduced by \$114 million because the Army did not totally offset its budget request for anticipated residual value payments from host countries.⁵

In the early 1990s, the Army reduced its future year budget estimates in anticipation of receiving residual value payments. For fiscal year 1995, the amount of residual payments anticipated was \$232 million. However, according to Army officials, the Army has never received residual value payments equal to the reductions made to the budgets and, as a result, has been forced to reduce other programs to cover the funding shortfalls.

Because the Army does not expect to receive all of the \$232 million in fiscal year 1995, its budget includes \$114 million to compensate for the anticipated shortfall. Like the burden sharing issue, this could be construed to mean the United States does not expect a host country to compensate the United States for improvements to the property being returned.

In a related issue, the Defense activities' O&M request for fiscal year 1995 could be reduced \$8.3 million. When the United States receives residual value payments, the funds are placed in the DOD Overseas Military Facility Investment Recovery Account. The funds can then be distributed to the services by the Secretary of Defense after the funds are appropriated by Congress.

There is about \$8.3 million in the account that the Secretary of Defense could distribute to the services—\$4.2 million to the Army and \$4.1 million to the Air Force if Congress appropriated the funds. This would allow the services to reduce their budget requests by a like amount.

Payment for Maintaining Equipment Bought for German Reserve Forces

As part of a 1986 agreement with the German government, the United States agreed to provide and pay to maintain certain types of combat support and combat-service support equipment bought for the German Reserves. This equipment would be used to support U.S. forces in time of crisis or war if the German Reserves mobilized.

According to USAREUR officials, the United States will pay about \$9.5 million in fiscal year 1995 to maintain the equipment that has been provided to the German Reserves.

⁵Residual value is a negotiated amount between the United States and a host country to reimburse the United States for investment in facilities that are being returned to the host country.

An Army Audit Agency report dated December 29, 1993,⁶ pointed out that USAREUR cannot count on support from the German Reserve units unless Germany is directly threatened. For example, during Operation Desert Storm, the German Reserves were not mobilized and USAREUR experienced a shortfall in transportation capability.

The report questioned why the United States should pay to maintain equipment for the German Reserves if U.S. forces receive limited benefits from the equipment. If Congress agrees, it may wish to reduce the Army's request for O&M funds by at least \$9.5 million.

An Army official said that the Army is negotiating with the Germans to terminate the program, but that there will be a 1-year lag between the time negotiations are completed and the program can be terminated.

ORSCOM Plans to Spend Less on Real Property Maintenance than Allocated by the Army

The Army allocated \$247 million to FORSCOM for real property maintenance in fiscal year 1995—an increase of \$34 million over the fiscal year 1994 funding level. Nevertheless, FORSCOM's plan for executing the fiscal year 1995 budget shows that \$49 million was transferred from the real property maintenance account to other O&M accounts. The Army has testified that years of funding shortfalls have caused deterioration of its infrastructure. However, the situation at FORSCOM is somewhat different. The command's backlog of maintenance and repair has remained relatively stable since 1983 and actually declined from 1991 to 1993.

As evidenced by the fact that FORSCOM plans to spend \$49 million less on real property maintenance than it was allocated, the command's budget request can be reduced by the same amount.

Civilian Personnel Requirements Are Overstated

Civilian personnel requirements for fiscal year 1995 were determined based on the budgeted end strength for fiscal year 1994, which were adjusted for program changes that are expected to occur during fiscal year 1995. If fiscal year 1994 actual end strength is less than what was budgeted, the beginning point for determining the fiscal year 1995 requirement is overstated.

As of April 1994, the on-board personnel levels were already below their fiscal year 1994 end strength by 8,776 personnel positions in the Army,

⁶Warfare Host Nation Support Agreement, U.S. Army, Europe and Seventh Army, Report NR 94-4, Dec. 29, 1993.

2,692 in the Air Force, and 2,415 in the Defense activities. As a result, the beginning and ending points for determining fiscal year 1995 requirements were overstated by a like amount. These overstatements equate to \$387 million in the Army, \$123 million in the Air Force, and \$54 million in the Defense activities.

In addition, the Navy's request for civilian personnel was overstated \$17 million. The budget request included \$3.1 billion; however, documentation supporting the request showed a requirement for \$3.06 billion—a \$94-million difference. Navy officials explained that at the time the budget request was prepared, \$77 million of pay benefits was included in the civilian personnel section of the budget presentation. It was later determined that these costs should be in the budget section dealing with purchases from the industrial fund. Therefore, the supporting documentation for civilian personnel did not include this amount. With regard to the remaining \$17 million, Navy officials said that it was an overstatement of their civilian personnel requirements.

Army, Navy, and Air Force officials commented that even though the amounts requested in the budgets may be overstated, it should be recognized that the services will have to pay costs such as locality pay, personnel transition costs, and so forth, that were not budgeted for. Therefore, the overstatement is not as great as it might appear.

Unneeded Appropriated Fund Support to the Military Exchanges

Profits earned on sales at the military exchanges are provided to the services' Morale, Welfare, and Recreation (MWR) fund to provide services to uniformed service members. At the same time, the exchanges—which are operated by the Army-Air Force Exchange Service (AAFES)—receive appropriated fund support. In fiscal year 1994, AAFES received about \$199 million in appropriated funds and it plans to contribute about \$191.7 million to MWR activities.

The availability of appropriated fund support makes it possible for AAFES to make these contributions. Reducing the appropriated fund support to AAFES by the amount that it contributes to MWR activities (\$191.7 million) would not impair the service provided by AAFES to its military customers. However, user fees charged to military personnel for MWR activities might have to be increased to offset the appropriated fund support currently received by the activities.

Proceeds From Sale of Unauthorized Recycled Materials Are Being Transferred to MWR Activities

Installation commanders are permitted to use proceeds from the sale of recycled goods to supplement MWR activities. In fiscal year 1992, cash receipts from selling recycled materials totaled \$37 million.

In December 1993, we reported⁷ widespread abuse in DOD's recycling program. Military installations received millions of dollars each year from the sale of materials that were not authorized by DOD for sale under the recycling program and the sale proceeds were transferred to MWR activities.

Funds obtained from the sale of unauthorized items should either be used to offset the need for additional appropriated funds or be returned to the Treasury. In view of the fact that the services sold recycled materials that are specifically prohibited under DOD regulations—\$2.8 million in the Army, \$0.8 million in the Navy, and \$1.5 million in the Air Force—Congress may wish to reduce the services' O&M budget requests by these amounts.

Unobligated Balances From Prior Years' O&M Appropriations Are Larger Than Needed

Unobligated balances from prior years' O&M appropriations are generally not available for new obligations and may only be used for adjustment to existing obligations for the specific fiscal year of the appropriation.

As of September 1993, the Army, the Navy, and the Air Force had unobligated balances from prior years' appropriations totaling \$1.866 billion. The services claim that unobligated balances are needed to satisfy upward adjustments to obligations incurred in that fiscal year which have not yet been liquidated. However, our analysis shows that unobligated balances have been increasing because as prior years' obligations are liquidated, the amount of the liquidations is generally less than the amount initially obligated.

The average annual increases in the unobligated balances accounts are \$255 million for the Army, \$114 million for the Navy, and \$155 million for the Air Force. This overall trend indicates that the services' estimates of O&M funds needed for obligational authority are overstated and the services' budget requests can be reduced accordingly.

Army officials said that because they cannot determine in advance what obligations may be liquidated in an amount less than initially obligated,

⁷Department of Defense: Widespread Abuse in Recycling Program Increases Funds for Recreation Activities (GAO/NSIAD-94-40, Dec. 10, 1993).

they consider the fact that unobligated balances from prior years' appropriations keep increasing as a "cost of doing business."

Some Reserve Officers' Training Corps Units Do Not Meet Enrollment Criteria

The Reserve Officers' Training Corps (ROTC) program consists of 532 ROTC units at the college level. At the end of fiscal year 1993, there were 111 ROTC units that did not meet the congressional criteria for minimum efficient enrollment—a minimum of 17 juniors in any one of the previous 4 years.⁸ The fiscal year 1993 O&M costs for these units were \$4.8 million (\$1.5 million in the Army, \$0.1 million in the Navy, and \$3.2 million in the Air Force), not including scholarships, stipends, travel, or costs of uniforms.

Fiscal year 1994 O&M costs were not readily available. However, we found nothing in our review to indicate that these costs have decreased. Therefore, Congress may want to reduce the services' fiscal year 1995 O&M requests by the above amounts as an incentive for the services to comply with previous congressional direction.

Army officials said that they plan to close 25 unproductive ROTC units in fiscal year 1995.

Air Force May Be Training More Pilots Than They Have Flying Positions for

By fiscal year 1995, the Air Force estimates that it will need 15,300 pilots. This represents a reduction from the 22,300 pilot requirement in fiscal year 1989.

According to our 1993 report,⁹ the Air Force was training more pilots than it needed and, as a result, about half of the pilots completing the program were assigned to non-flying positions (or "banked") for up to 3 years before entering weapon system training. To eliminate the "bank" and ensure that cockpit spaces were available, the Air Force took a number of management actions such as overmanning fighter units, initiating an early release pilot program, and adding a third pilot to tanker aircraft.

Air Combat Command officials said that Air Staff did not provide enough flying hours to adequately train the number of pilots on hand in fiscal year

⁸Officer Commissioning Programs: More Oversight and Coordination Needed (GAO/NSIAD-93-37, Nov. 6, 1992) and Reserve Officers' Training Corps: Less Need for Officers Provides Opportunity for Significant Savings (GAO/NSIAD-91-102, May 6, 1991).

⁹Air Force Training: Delaying Pilot Training Could Avert Unnecessary Costs (GAO/NSIAD-94-38, Nov. 3, 1993).

1994 and that the command had to reprogram money from other programs to supplement the flying hour program.

In fiscal year 1995, the Air Combat Command expects to receive an additional 51 pilots of which 40 are former banked pilots. Command officials said that in the absence of additional flying hours, operational unit training will be reduced two to three sorties per month per pilot. This decrease is a result of overmanning bomber and fighter squadrons. The Air Force decided to overman these type units to reduce the number of banked pilots and, according to the Commander of Air Combat Command, the reduction in sorties will have an adverse effect on readiness.

The Air Force plans to admit 500 pilot candidates into undergraduate pilot training in fiscal year 1995 at a cost of about \$298 million. We recognize that there is a need to maintain the program; however, it is questionable whether the Air Force should send 500 candidates to training in fiscal year 1995 in view of the fact that the total number of pilots in the Air Force is being reduced.

As a beginning for reducing the number of pilots entering pilot training until it can ensure that there are sufficient cockpit spaces available, the Air Force could reduce the number of pilot candidates to 250 in fiscal year 1995. Over time, this would reduce the number of pilots assigned to non-flying positions. If Congress agrees, it could reduce the Air Force's pilot training budget for fiscal year 1995 by about \$149 million.

An Air Force official commented that the more experienced pilots may have to fly less in order to make flying hours available for the banked pilots to train. However, in his opinion, the units would still be able to meet their proficiency goals within the planned flying hour program.

FORSCOM's Budget Contains a Reserve for Congressional Reductions

FORSCOM's fiscal year 1995 O&M budget allocation from the Army is \$3.27 billion for its operating forces. In its guidance to its installations, FORSCOM advised that it was withholding 7 percent of the \$3.27 billion (\$228.9 million) in anticipation of congressional reductions. Therefore, the installations were expected to develop their fiscal year 1995 execution plans in accordance with the reduced amount.

In view of the fact that FORSCOM plans to execute its fiscal year 1995 budget at a level significantly less than the amount allocated by the Army, Congress may want to reduce the Army's O&M request by \$228.9 million.

Army's Credit Policy for Items Returned to the Retail Stock Fund Increases O&M Buying Power

In April 1992, the Army implemented stock funding of depot level repairables (SFDLR). Under SFDLR, Army units use O&M funds to purchase items from the wholesale supply system whereas these items were previously provided at no cost to the units.

The Army's SFDLR implementation plan provided that when units turned in items that they no longer needed, they would only receive credit¹⁰ from the retail stock fund equal to what the retail stock fund would receive from the wholesale stock fund. However, as we reported in May 1994,¹¹ the credit process is not working the way it was intended. In fiscal year 1993, the retail stock fund gave credits totaling \$1.251 billion to the units but received credits totaling \$1.050 billion from the wholesale stock fund—a \$201-million deficit. This deficit has caused a cash drain on the wholesale system, which is part of the Defense Business Operating Fund. The reason for this situation is that the retail stock fund grants the credits regardless of whether it will receive credit from the wholesale stock fund. In many cases, because the item turned in by the unit is not needed at the wholesale level, the retail stock fund does not receive any credit.

Army units are also spending O&M funds to unnecessarily repair items that are in a long-supply, ready-for-issue condition at the wholesale level. Table 3 shows examples of items in long supply at the wholesale level that were being repaired at Fort Hood, Texas,—one of the locations included in our review.

Table 3: Items Being Repaired at Fort Hood That Were in Long Supply at the Wholesale Level

Item	Repaired at local level		Number of items in long supply
	Number	Total repair cost	
M-88 engine	39	\$735,250	45
CUCV transfer transmission	35	12,023	1,731
CUCV fuel pump	63	15,134	3,013
M-109 transmission	7	21,151	638
Steering gear kit	13	12,115	907

Source: Army Materiel Command Budget Stratification Reports and Fort Hood Directorate of Logistics repair data

¹⁰The credit translates into increased O&M funding, which the unit can use to buy other spare parts or for any other O&M purpose.

¹¹Army Inventory: Changes to Stock Funding Repairables Would Save Operations and Maintenance Funds (GAO/NSIAD-94-131, May 31, 1994).

In view of the fact that Army units have been able to increase their O&M purchasing power by \$201 million by converting stock funds to O&M funds and are using O&M funds to repair items at the local level that are in long supply at the wholesale level, Congress may want to reduce the Army's request for O&M funds by at least \$201 million.

An Army official said that the Army is (1) reducing the credit rate for the amount of credit that units receive when they turn in unneeded items and (2) offering items in long supply at a reduced rate to the units so that they will not make uneconomical repairs at the local level. He said that these actions should address the problems cited in our report.

Disposal of Excess Navy Ships Would Save Money

Reduction in the size of the Navy's surface combatant force has resulted in hundreds of ships and service craft that are no longer needed. The number of surplus ships has been increasing for some time. In fiscal years 1994 and 1995, the Navy expects to pay \$1.84 million and \$1.86 million, respectively, to the Maritime Administration for the preservation and safekeeping of about 100 ships that the Navy no longer needs. The Navy also spends about \$12 million a year to operate its four inactive fleet storage sites. Disposing of the unneeded ships would allow the Navy to reduce the number of its own storage sites from four to three and save about \$3 million annually in O&M funds. In view of the above, Congress may want to reduce the Navy's fiscal year 1995 O&M request by \$4.9 million as an incentive to expedite the disposal of the unneeded ships.

Army's Request for Direct Appropriations Is Overstated

For fiscal year 1995, the Army requested O&M obligation authority of \$22.534 billion and direct appropriations of \$17.821 billion. The remaining \$4.713 billion consists of reimbursements from the other services and agencies.

After the President's budget was submitted to Congress, the Army increased the amount of reimbursements it expects to receive to \$4.842 billion, an increase of \$129 million. However, the amount of its requested obligation authority remained the same. Therefore, the Army's request for direct appropriations is overstated by \$129 million, and its budget request can be reduced by a like amount.

An Army official said that the Army inadvertently forgot to increase the request for obligation authority when the amount of estimated reimbursements was increased.

Army Continues to Overcharge for Transient Housing

Army lodging facilities—referred to as transient housing—are largely supported with O&M funds paid by personnel in a travel status. In a 1990 report,¹² we reported that some Army installations overcharged travellers an estimated \$70 million for transient housing and used the excess charges to subsidize MWR activities. We recommended, and the House Committee on Armed Services agreed, that the Army should return the excess funds to the O&M accounts or to the U.S. Treasury. The Army continues to ignore congressional guidance and has not repaid any of the accumulated funds. As of October 1992, the amount of overcharges had increased to \$157 million.

In response to our earlier report, the Army stopped transferring the excess funds to MWR accounts and instead transferred \$34 million to a separate non-appropriated account—referred to as a “single account.”

Last year,¹³ we recommended that housing officials reduce the lodging fee. Army housing officials told us that if a more reasonable fee was charged, O&M funds needed for travel could be reduced about \$20 million a year. In total, the Army's O&M request for fiscal year 1995 can be reduced about \$143 million (\$123 million of unpaid overcharges from prior years and \$20 million for fiscal year 1995). One alternative to repaying the O&M account would be to put the \$143 million in the single account and use the funds for a specific purpose, such as remodeling barracks.

Air Force's Second Destination Transportation Account Can Be Reduced

The Air Force's fiscal year 1995 budget request includes \$164.8 million for second destination transportation. Our analysis showed that the Air Force's current estimate for second destination transportation in fiscal year 1995 is \$154.6 million. Therefore, the Air Force's transportation budget request can be reduced \$10.2 million.

¹²Army Housing: Overcharges and Inefficient Use of On-Base Lodging Divert Training Funds (GAO/NSIAD-90-241, Sept. 28, 1990).

¹³1994 DOD Budget: Potential Reductions to the Operation and Maintenance Programs (GAO/NSIAD-93-295BR, Sept. 16, 1993).

Navy Plans to Operate Fewer Landing Craft Air Cushion Than Budgeted for

The Navy's fiscal year 1995 request for maintenance funds included funds to operate and maintain 80 landing craft air cushion (LCAC)—8 of which are in a reduced operating status. According to an official in the LCAC program office, the Navy has now reduced the number of LCACs it plans to operate and maintain in fiscal year 1995 to 72. Thus, the request can be reduced \$5.3 million in the following areas:

- \$3.4 million for reduced LCAC crew training and OPTEMPO;
- \$0.6 million for maintenance planning for the fiscal year 1996 depot maintenance program; and
- \$1.3 million for fuel, parts, and preventive maintenance.

Increases to the Military-to-Military Contact Program Are Questionable

In 1992, the European Command started the Military-to-Military Contact Program to support and further the development of democratic governments, civil-military relations, and defense-oriented militaries in the countries of Central and Eastern Europe. Funding for the program from the Commander in Chief (CINC) Initiative Fund amounted to \$512,000 in fiscal year 1992 and \$6 million in fiscal year 1993.

For fiscal year 1994, Congress appropriated \$10 million to the Joint Chiefs of Staff's O&M account for the program. For fiscal year 1995, DOD has requested \$46.3 million to expand the geographical scope of the program to a global basis.

Our analysis of the proposed program shows that DOD has not justified the need for the expanded program. The Office of the Secretary of Defense asked the Joint Chiefs of Staff to determine how the Unified Commanders planned to spend the amount requested in the fiscal year 1995 budget. Joint Chiefs of Staff officials could not explain why this type of program is needed in other areas of the world where the U.S. military has already established relations with foreign militaries.

Our analysis also showed that the expansion of the program would result in a new bureaucracy without any apparent increase in program efficiency. The Office of the Secretary of Defense recently created the Office of Foreign Civil-Military Relations whose primary responsibility is to provide policy guidance for the program. However, the program would not consolidate all DOD-funded military-to-military activities. Funding for these activities are being requested separately under the CINC Initiative Fund, service O&M accounts, and the Military-to-Military Contact Program. According to Joint Chiefs of Staff officials, Unified Commanders would

use the proposed program as an additional source of funding for traditional military-to-military activities because service O&M accounts have been declining.

In view of the questions raised about the proposed program, Congress may wish to reduce the defense-wide fiscal year 1995 O&M request by \$36.3 million, the amount of the program increase.

DOD Support for Special Events Is Not Reimbursed by Event Organizers

The DOD Office of Special Events is responsible for managing all Defense support to international special events. Office officials view their primary role as a supporter of local law enforcement agencies because security requirements for major international events usually exceed the community's capabilities. In this regard, DOD provides event organizers with security-related assets such as communications and physical security equipment and various types of training. Under existing policy and regulations, event organizers are to certify that the requested goods or services cannot be obtained through other public and private resources and that DOD is the source of last resort.

Our review of requests for DOD support from law enforcement agencies showed that from 1992 through 1994 DOD paid for nonfederal officials to attend events in places like Barcelona, Spain, and Lillehammer, Norway, to gain a firsthand knowledge of the security preparations that go into planning for an Olympics. For example, the group responsible for providing security at the 1996 Olympics requested and received approval from the Office to send two nonfederal executives to Lillehammer from February 10 through March 2, 1994, to study Olympic security operations. This was in addition to the cost of travel paid by the Office to send 29 persons to Barcelona in 1992 to "experience firsthand the security planning and operations of the Summer Olympics..."

In total, the Office has spent or committed about \$15 million since the beginning of fiscal year 1993 on the World University Games, World Cup, and 1996 Olympics. Of this total, about \$3.3 million was for training, travel, and transportation. As of March 14, 1994, \$14 million remained in the DOD account for the World University Games, World Cup, and 1996 Olympics.

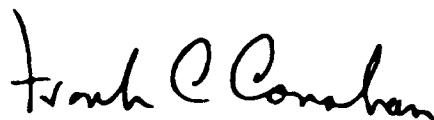
The intent of the special events program is directed at those cases where DOD may have a unique capability or equipment that would not otherwise be available to the event sponsors and organizers. However, for DOD to pay travel expenses for nonfederal personnel to observe security measures at

other sporting events seems more attuned to supplementing financial resources rather than providing needed services or equipment. If Congress agrees, it may want to require that event organizers reimburse DOD for the support it provides.

We discussed the aforementioned issues with responsible program officials during the course of our review and included their comments where appropriate. Our scope and methodology are described in appendix I.

We are sending copies of this report to the Secretaries of Defense, the Army, the Navy, and the Air Force; the Director of the Office of Management and Budget; the Chairmen and ranking Minority Members of the House and Senate Committees on Appropriations and on Armed Services; and other interested congressional committees. Copies will be made available to others upon request.

This report was prepared under the direction of Mark E. Gebicke, Director, Military Operations and Capabilities Issues, who may be reached on (202) 512-5140 if you or your staff have any questions. Other major contributors to this report are listed in appendix II.



Frank C. Conahan
Assistant Comptroller General

Scope and Methodology

This review is one of a series that examines Department of Defense (DOD) budget issues. Our review approach consisted of interviews with program and budget officials responsible for managing the programs and/or preparing the budget requests; reviews and analyses of financial, budget support, and program documents related to the operations and maintenance (O&M) issue being reviewed; an analysis of prior year funding levels and expenditures to identify trends; and reviews of our recently issued reports and ongoing assignments to identify O&M issues that could affect the fiscal year 1995 budget requests.

Our review was performed at Army, Navy, Air Force, and DOD headquarters; U.S. Forces Command; U.S. Army, Europe; Atlantic Fleet; Pacific Fleet; U.S. Air Forces, Europe; Air Combat Command; Oklahoma City Air Logistics Center; and Air Force Materiel Command. The specific commands included in our review were selected because they were the larger recipients of O&M funds.

We performed our review from January to July 1994 in accordance with generally accepted government auditing standards.

Major Contributors to This Report

National Security and International Affairs Division, Washington, D.C.

Norman J. Rabkin
Robert J. Lane
Carole F. Coffey
Merrie C. Nichols-Dixon
Joseph P. Walsh
Judith A. McCloskey
Todd M. Appel

Atlanta Regional Office

Leo B. Sullivan, Jr.
Kenneth A. Davis

Cincinnati Regional Office

Bruce D. Fairbairn
Leonard L. Benson
Myra A. Watts

Dallas Regional Office

Charnel F. Harlow
Kerry A. O'Brien
Hugh F. Reynolds

European Office

Elliott C. Smith
Bettye J. Cayton
Barry J. DeWeese
Donna M. Rogers
John C. Wren

Kansas City Regional Office

Richard E. Burrell
Denise M. Wempe
Gary L. Nelson
Michael W. Buell

Los Angeles Regional Office

James D. Nolan

Appendix II
Major Contributors to This Report

**Norfolk Regional
Office**

Thomas A. Pantelides
Jeffrey L. Overton, Jr.
Robert C. Mandigo, Jr.
Henry Arzadon
Raul S. Cajulis
Robert W. Wagner
Julie C. Chapman